[redacted]

KETCHIKAN PUBLIC UTILITIES

2930 TONGASS AVENUE KETCHIKAN, ALASKA 99901 TELEPHONE 907-225-1000
FAX 907-225-1888

MUNICIPALLY OWNED
ELECTRIC TELEPHONE WATER

016-45

DOCKET FILE COPY ORIGINAL

October 30, 2000

RECEIVED
NOV 1 2000
FCC MAIL ROOM

Ms. Magalie Roman Salas, Secretary
Federal Communication Commissions
445 12th Street, SW
TW-A325
Washington, DC 20554

Dear Ms. Salas:

Re: Comments On The Rural Task Force Recommendations, FCC-OOJ-3

With regard to the above referenced subject, attached are comments by the City of Ketchikan, d.b.a. Ketchikan Public Utilities concerning the Recommendations of the Rural Task Force submitted to the Joint Board on September 29, 2000.

Should there be any questions or additional information required, please contact my office at the above address.

Very Truly Yours,

Karl R. Amylon,
General Manager

Cc: Accounting Policy Division, Common Carrier Bureau, FCC
Dan, Lindgren, Acting Telecommunication Division Manager
Larry Cheeseman, Cheeseman Consulting Group

No. of Copies rec'd 0+4
List ABCDE

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D. C. 20554

RECEIVED
NOV 1 2000
FCC MAIL ROOM

In the Matter of	)	
Federal-State Joint Board on	)	CC Docket No. 96-45
Universal Service	)	Comments on the Rural Task
	)	Force Recommendation
	)	FCC-OOJ-3

COMMENTS OF CITY OF KETCHIKAN
d.b.a. KETCHIKAN PUBLIC UTILITIES

The City of Ketchikan, Alaska, d.b.a. Ketchikan Public Utilities, 2930 Tongass Avenue, Ketchikan, Alaska, 99901, files these comments regarding the Recommendation of the Rural Task Force (RTF) submitted to the Joint Board on September 29, 2000.

We are pleased with the concepts and recommendations contained in this report and support its adoption. As with any consensus position developed through compromise, there are areas of disagreement, which will be further discussed. However, overall, we find the RTF report to be a fair and well-designed plan for eliminating the uncertainty that has long overshadowed rural universal service eligibility and funding. Its adoption will encourage investment in rural infrastructure.

It is apparent that the RTF recommendations are based upon a detailed analysis of the geographic areas served, the cost characteristics of the companies providing these services, and the public need for telecommunication services in rural America. It is a tribute to the members of the Task Force, who, even though they represent various industry and regulatory groups, were able to set aside their own self-interests and focus on arriving at difficult compromises that address a multitude of very difficult and contentious issues. Without all of the party's willingness to listen to all sides and compromise in key areas, this report and recommendation could never have been achieved.

Overall, we find immediate adoption of the concepts and recommendations contained in the RTF report to be in the public interest and in the interest of rural telecommunications carriers. We urge its adoption. Comments on specific areas of the report follow where we would recommend modifications or clarifications to the RTF report:

Modified Embedded Cost Mechanism:
We fully support the recommendation to continue to determine support levels based upon embedded costs of the service provider. It has been shown that use of proxy models simply cannot adequately and accurately determine the amount of support necessary to encourage investment in uneconomic rural areas. Provision of support based on costs incurred and

investments actually made is the best alternative for establishing funding levels. As stated by the RTF, "the Task Force is recommending a support mechanism that inherently provides incentives for infrastructure investments necessary for providing access to advanced services."

Modification to Caps and Limitations:
We support the retargeting of the current cap on the High Cost Loop portion of the USF fund. For the past several years, the shortfall experienced by rural ILECs as a result of the existing cap has grown larger and, at its current restrictive level, the cap can have a serious impact on the sufficiency of the funds available to encourage continued investment. We feel that complete elimination of the Cap would be the best solution to this issue. However, given the RTF's strict adherence to the concepts of sufficient and predictable funding in developing its recommendations, we support the continuation of the Cap provided it is modified as proposed by the RTF. We are also supportive of the recommendation to reevaluate how the fund is operating and if it continues to remain sufficient and predictable over the next five years. Our expectation is that, based on the RTF recommendation to reevaluate the process in five years, the effect of the Cap on sufficient and predictable funding in the future will be monitored and modifications considered when necessary.

Safety Net:
We support the "safety net additive" recommended by the RTF. Inclusion of the safety net will minimize unintended artificial restrictions on investments made by companies experiencing large investment needs.

Support in Areas with CETCs:
This, perhaps, is the most difficult issue faced by the RTF in accomplishing the goals of sufficient and predictable funding while also establishing a competitively neutral fund in service areas where it may be difficult to economically justify facilities of one service provider, let alone multiple eligible telecommunications carriers (ETCs).

The RTF has recommended that an ETC's average loop support be frozen at the time another competitive eligible telecommunications carrier (CETC) has been approved and is providing service. Each competitor would receive USF based upon that average support amount. This recommendation raises several issues not addressed in the RTF report that should be considered.

First, the RTF was unable to reach a consensus on stranded investment. Stranded investment will occur if an ETC, based on its expectation of sufficient and predictable USF funding, makes extensive investments in uneconomic areas. At a later date, a CETC could be approved and providing service for that same area, thereby reducing USF funding the original ETC would receive even though investments have previously been made. The authorization of a CETC and subsequent sharing of USF funding among multiple ETCs will result in the stranding of investments made by the initial ETC. The original ETC made uneconomic investments in good faith with the expectation that USF funding would be available in the future to assist in recovering the cost of the investment. The investment was made without any other CETC in existence. This stranding of investment may violate the predictable and sufficient funding standards contained in the Act. The possibility of future stranded investment may discourage needed capital investment in uneconomic areas.

Second, freezing the support amount simply based upon the approval and initiation of service by a CETC will have the undesirable effect of reducing the financial incentive to continue investments in uneconomic areas by the original ETC once a CETC is operational since additional investments will not necessarily be supported by a corresponding increase in USF.

Third, simply having the approval and provision of service to the initial customer by a new CETC trigger a freezing of the loop cost may dramatically change the USF funding determination even if the CETC is unsuccessful in attracting market share. There should be some parameters established regarding market share prior to establishing a frozen loop amount and some method of reverting to an actual calculation of loop cost by the ETC if the CETC is not successful.

In order to address these issues in a manner consistent with the mandate for sufficient and predictable funding and the mandate to establish a competitively neutral fund, we propose the following:

1. That an alternative be established to mitigate the problem of stranded investment. One such alternative would be to establish a means of determining stranded investment and authorizing a gradual phase down of USF support resulting from the investment.

2. That the requirement to convert to a frozen loop cost not become effective until the CETC achieves and maintains a minimum market share in the range of 5 to 10 percent. Until such minimum market share is achieved, USF for both the ETC and the CETC would be based upon the average loop cost of the ETC.

Merger and Acquisition Cap:
The RTF report has attempted to mitigate the negative impact on those customers served by companies in rural areas where exchanges have been acquired from other companies. Section 54.305 of the FCC rules allows an acquiring carrier to receive universal service support at the same per-line support levels for which those exchanges were eligible prior to the transfer of exchanges. This policy was intended to control the growth in the fund as well as minimizing the ability for a newly acquiring company to realize additional funding simply through a change of ownership. This policy has succeeded in controlling the size of the fund but has resulted in insufficient funding being available to allow companies to make needed investments in areas that had typically not received sufficient investment by the previous owner. The ultimate loser is the rural customer who is left without satisfactory telephone service for reasons beyond his control or understanding.

We recommend that the rules be modified in a manner consistent with Appendix D of the RTF Recommendation. The illustrative example that the RTF recommendation provides in its Appendix D represents an improvement in this area and, if adopted, will enhance the ability of

ETCs to invest in rural America. In an effort to better target USF in these situations, we suggest that the arbitrary suggested percentage of 50% USF support contained in appendix D should be modified to be more consistent with the support received by those exchanges that have not been the subject of a merger or acquisition. We suggest that the percentage recovery be limited by the same percentage as the indexed HCL fund cap limits other ETC support. We also recommend that the amount of support determined under these circumstances not be limited to 5% of the indexed HCL fund cap for Rural Carriers as recommended since there is no way of knowing how many lines may change hands over the next few years.

We recognize that our recommendation will increase the size of the fund and may in some minor way influence the purchase price of an exchange sale. On balance, we believe that the RTF proposal attempted to, in a measured way, give some flexibility that is needed for rural infrastructure deployment and we fully support the recognition of this key policy issue. The overriding concern in this proceeding should be what mechanisms can best ensure that future investments are made and customers served in a fair and consistent manner throughout all rural areas without the customers being the unintended victims of regulatory policy decisions. We feel the suggestions we have made in this area will enhance achievement of sufficient infrastructure investment in these rural areas.

Summary:

We find that the recommendations contained in the RTF report to be fair and reasonable and we support their adoption. Implementation of the RTF recommendations will reduce uncertainty, provide incentives to invest, better target the USF funding, and assist in the provision of quality telecommunication services in rural areas. We recommend its approval. In addition, we encourage the Commission to consider the additional issues and recommendations we raise in these comments.

Dated this 30th day of October 2000.

KETCHIKAN PUBLIC UTILITIES

By: ______________________

Karl R. Amylon, General Manager